

via email

Michael F. Orsini

Ways and Means Committee
1102 Longworth House Office Building
Washington D.C. 20515

RE: Comments to the Committee on Ways and Means on Comprehensive Tax Reform

Dear Chairman Camp and Ways and Means Committee Members,

Thank you for this opportunity to comment on comprehensive tax reform. I would like to recommend the following in order to simplify our tax system:

Business Taxation

- Taxable income should equal net income using U.S. Generally Accepted Accounting Principals (GAAP). Corporations provide less than ten percent of federal tax revenues, yet computing taxable income is horribly complex. Simplifying the computation will greatly free up societal and IRS resources. Any revenue impact can be addressed via rates and by elimination of general business credits as noted below.

If GAAP cannot be used in total, it should, at a minimum, be used for the following:

- Inventory – The UNICAP and other inventory rules that vary from GAAP are simply unnecessary.
 - Depreciation and amortization – While its been argued that accelerated depreciation can spur economic growth, the recent years of 50% and 100% bonus depreciation hasn't lead to an economic boom. Scrap the complex depreciation rules and go with the simple GAAP rules.
 - Capitalization – Recent temporary and proposed regulations on capitalization were over 300 pages. Need I say more?
- Repeal of all general business credits in exchange for lower rates. These credits are well intended, but repeal will allow for simplification. While there will be howling over the R&D credit, there is no more complex credit in the tax code. Its elimination could be offset by direct research grants if the considered necessary to attract and retain research in the U.S. I'm sure administering such grants would be less costly than the armies of IRS engineers needed to audit R&D credits. Note, however, that companies with general business credit carryforwards should be allowed to utilize those carryforwards after repeal of GBCs.
- Repeal Section 199. Again, while well intended, this is unnecessarily complex. Its repeal can be used to offset overall rates.
- Repeal the corporate AMT.

- Eliminate double taxation. Businesses should be given a choice to either operate as a pass-through, or be taxed. If the business chooses to be taxed, its distributions should be tax-free to U.S. owners. The business and individual tax rates should be unified so that taxation is equal.
- Adopt a full territorial system for international business taxation. Income from controlled foreign corporations should never be taxed in the U.S. and distributions from CFCs should be tax free. This will put U.S. multi-nationals on a level playing field with foreign based competitors, and will allow significant cash to be repatriated to the U.S.
- Lower the tax rate to 25% or less.
- Alternatively, if we want to make the U.S. the premier location for business, eliminate all income taxes on business. With the influx of business, employment will skyrocket and our budget woes will evaporate.

Individual

- Repeal the individual AMT.
- Simplify savings incentives. There are currently many savings incentives, including IRAs, 401(k)s, 529 plans, etc. These should all be scrapped and replaced with a single savings plan. Individuals who save, for any reason, should be allowed to deduct those savings from adjusted gross income. The savings deduction can be capped, and withdrawals from savings can be taxed at ordinary rates in the year of withdrawal. Current requirements to begin withdrawals at age 70.5 can be kept.
- Repeal Education Credits. I currently have two children in college, and another will be in college in a couple of years. While education credits help lessen the cost of college, the availability of these credits and other student financial assistance significantly contributes to increased tuition charges at colleges and universities. In order to get to the root cause of high education costs, i.e., uncontrolled costs charged by colleges, we need to stop throwing money at the problem.
- Lower the top tax rate to 25% or less. Rates should be lowered across the board and unified with the business rates as discussed above. As President John F. Kennedy famously said, “it is a paradoxical truth that tax rates are too high today and tax revenues are too low and the soundest way to raise the revenues in the long run is to cut the rates now.” This is still true, and tax rates must be cut.
- Repeal limitations on itemized deductions (e.g., PEP, Pease). If it’s deductible, then it’s deductible, period.
- Repeal the new Affordable Care Act Medicare taxes on high earners.
- Repeal the Estate and Gift taxes.
- Clarify employee/independent contractor classification. To provide clarity and help narrow the tax gap, perhaps a safe harbor could be established whereby independent contractor classification will be respected if the worker operates using a business entity (e.g., a corporation or LLC). However, 1099s would be required to be issued to ICs, even if operating in corporate form.

Thank you for considering these proposals. Also, please note that while I head the tax department for a *Fortune 500* company, these comments are my own and do not reflect views of my employer.

If you would like to discuss these proposals, or any other proposals, please do not hesitate to contact me.

Sincerely,

Michael F. Orsini